



# **2005 ANNUAL REPORT**

Economic Policy Institute

## Overview:

The Economic Policy Institute is a non-governmental non-for-profit organization, founded on 12 May 1997.

Its mission is to encourage and support the implementation of free market experience and know-how that will influence Bulgaria's effective participation in the global economy and its membership in Euro-Atlantic structures.

## EPI's primary tasks are:

- to bring experts together to explore issues and exchange views in order to generate innovative proposals for practical economic policy measures;
- to provoke public discussions on economic issues;
- to provide independent expert opinions and analyses;
- to inform and influence policy- and decision makers and the society;
- to encourage pro-active dialogue;
- to research economic issues and introduce best practices;
- to provide analysis of alternative approaches to economic issues.

## Activities:

- The main fields of activities for the EPI are:
- **Research and forecasts** on economic issues
- **Analysis** of alternative approaches to economic policies
- **Recommendations** of policy changes aimed at encouraging economic growth
- **Training** of various target groups
- **Advocacy work:** advising Government and Parliament bodies

## Economic Policy Institute

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## **C**HALLENGES TO THE FINANCIAL SECTOR IN CANDIDATE/ ACCEDING COUNTRIES IN THE CONTEXT OF THE INTERNAL MARKET ACQUIS (2004-2005)

The project was implemented in close cooperation with the University of National and World Economy (UNWE), Sofia and with the kind support of the "2003 Phare Small Projects Programme" (Budget line B7-030) and Sofia Higher School of Insurance and Finance

### **1. Goals:**

The overall objective of the project was to raise awareness on and contribute to the European integration and Enlargement process through identifying and assisting the resolution of some key constraints faced by the candidate and acceding countries involved in the project.

The project had several specific objectives:

- To address the challenges to the financial sector and the internal market acquis enforcement and implementation in Bulgaria, Romania, the Czech Republic, Hungary, Latvia and Poland;
- To specify appropriate policy recommendations, based on exchange of experiences among acceding and candidate countries;
- To increase the visibility of the European Union through explaining the internal market acquis requirements on the financial sector;
- To publicize the acceding/candidate countries' achievements through an international conference and follow-up workshop and related publications – conference proceedings and articles in newspapers, magazines and journals.

### **2. Activities:**

- Organization of one-day international conference on "Challenges to the Financial Sector in Candidate/Acceding Countries in the Context of the Internal Market Acquis"
- Organization of a follow-up international workshop
- Publication and dissemination of conference proceedings
- National outreach activities

### **3. Publications:**

Publications in specialized magazines and newspapers, daily press and periodicals

**Challenges to the Financial Sectors in Candidate/Accessing Countries in the Context of the Internal Market Acquis**, Economic Policy Institute, Sofia 2005, ISBN: 954-9359-19-0

**Предизвикателства пред финансовите сектори в бившите и настоящи страни-кандидатки за членство в Европейския съюз в контекста на европейското законодателство на вътрешния пазар**, Институт за икономическа политика, София 2005, ISBN: 954-9359-18-2

#### 4. Public events:

- International conference **"Challenges to the Financial Sector in Candidate/Accessing Countries in the Context of the Internal Market Acquis"** (April 07, 2005, Sofia)
- International workshop (April 08, 2005, Sofia)

#### Participants:

Representatives of the financial sector institutions, banks, business associations, universities, research institutes, business analysts and experts from the countries envisaged.

#### Speakers:

**Kamelia Assenova**, University of National and World Economy, Sofia  
**Gyorgy Attila**, Romanian Academy of Economic Studies, Bucharest  
**Kálmán Dezseri Ph.D.**, Senior Research Fellow, Institute for World Economics, Hungarian Academy of Sciences, Budapest  
**Sonya Dilova, Ph.D.**, Associate Director, Fitch Ratings, London  
**Galina Dimitrova**, Independent Analyst, Sofia  
**Georgi Draichev**, Executive Director, Bulgarian Stock Exchange-Sofia  
**Prof. Metodi Hristov**, Vice Rector, Higher School of Insurance and Finance, Sofia  
**Petar Ignatiev**, United Bulgarian Bank, Sofia  
**Irena Mladenova**, University of Udine, Conegliano  
**Wioletta Nawrot**, Ph.D., Researcher, CASE, Warsaw  
**Prof. Plamen Oresharski**, Vice Rector, University of National and World Economy, Sofia  
**Petr Pavlik**, Institute of International Relations, Prague  
**Dr. Ivanka Petkova**, Executive Director, Economic Policy Institute, Sofia  
**Prof. Lena Roussenova**, University of National and World Economy, Sofia; Vice Rector, Higher School of Insurance and Finance, Sofia  
**Rosen Rozenov**, Head of Division, Monetary and Financial Research, Bulgarian National Bank, Sofia  
**Silvia Trifonova**, University of National and World Economy, Sofia

## **F**INANCIAL SECTOR DEVELOPMENT IN CEEC AND EU INTEGRATION. LESSONS, CHALLENGES AND TASKS FOR BULGARIA AND ROMANIA (2004-2005)

The project was funded by the "2003 Phare Small Projects Programme" (Budget line B7-030).

Lead organization: Institute for World Economics to the Hungarian Academy of Science, Budapest in partnership with the Economic Policy Institute, Sofia

### **1. Goals:**

The overall objective of the proposed project is to facilitate and speed up the process of financial sector development in Bulgaria and Romania, in view of their better preparation and future effective participation in the European Monetary Union.

The project aimed at reaching the following specific goals:

- Strengthening of the cross-border cooperation and encouraging the exchange of experience and working in network among highly qualified experts and practitioners on financial issues from the CEE region;
- Promoting better understanding of the efficient policy making process among the involved target groups;
- Development of the financial services in the second wave accession countries, through adopting the EU standards in this sphere;
- Raising awareness of the obstacles and difficulties the financial sector faces, during the implementation of the needed economic reforms;
- Introducing the audience to the achieved results so far (incl. concrete data and information) in CEE countries;
- Provoking discussions and systematizing of recommendations for governmental strategies and policies.

### **2. Activities:**

- Preparation of international workshop in Budapest;
- Organization and implementation of workshop on "Cross-border Cooperation in the Process of Financial Sector Development in the Accession Countries";
- Preparation of international conference in Sofia;
- Organization and implementation of conference on "Financial Sector Development in Central and Eastern European Countries and EU Integration";
- Publication and dissemination of the conference materials.

### 3. Publications:

**Financial Sectors Development in Central and Eastern European Countries and EU Integration**, Economic Policy Institute, Sofia 2005, ISBN: 954-9359-20-4

Publications in specialized magazines and newspapers, daily press and periodicals

### 4. Public Events:

- International Workshop on **“Cross-border Cooperation in the Process of Financial Sector Development in the Accession Countries”** (April 15, 2005, Budapest)
- International Conference on **“Financial Sector Development in Central and Eastern European Countries and EU Integration”** (June 27, 2005, Sofia)

#### Participants:

Representatives of the financial sector institutions, universities, banks, business associations, Ministry of Finance of Bulgaria, research institutes, international organizations and diplomatic corps in Bulgaria, business consultants, foreign experts, and journalists.

#### Speakers:

**Ass. Prof. Gyorgy Attila**, Finance Department, Faculty of Finance, Insurance, Banking and Stock Exchange, Academy of Economic Studies, Bucharest

**Maris Ceveris**, Institute of Economics, Latvian Academy of Sciences, Riga

**Prof. András Inotai**, Director General, Institute for World Economics, Budapest; President, Economic Policy Institute, Sofia

**Imre Kiss**, Deputy Director, Eye Watch Global Network Ltd., Budapest

**Marko Kosak**, Assistant Professor, Faculty of Economics, University of Ljubljana, Ljubljana

**Prof. Dr. Tatiana Mosteanu**, Dean, Faculty of Finance, Insurance, Banking and Stock Exchange, Academy of Economic Studies, Bucharest

**Franz Nauschnigg**, Head of Division European Affairs and International Financial Organizations, National Bank of Austria, Vienna

**Kristofor Pavlov**, Chief Economist, Bulbank, Sofia

**Ivanka Petkova**, Executive Director, Economic Policy Institute, Sofia

**Prof. Dr. Jadwiga Zaręba**, Expert, CASE-Center for Social and Economic Research, Warsaw

## **S****IXTH ANNUAL SUMMER SEMINAR FOR SEE YOUNG PUBLIC SERVANTS "PREPARATION FOR EU ACCESSION" (September 8 – 11, 2005)**

The Summer Seminar was implemented under the auspices of the Ministry of Foreign Affairs of the Republic of Bulgaria and with the kind support of "The Balkan Trust for Democracy" a project of The German Marshal Fund of the United States; Central European Initiative; Austrian Embassy, Sofia; Encouragement Bank, Sofia; and co-financed by Know How Transfercenter of the Austrian Association of Cities and Towns with funds from the Austrian Development Agency

### **1. Goals:**

The general goal of the project is to directly contribute to the process of European integration of Bulgaria and the neighboring SEE countries and promote better and efficient communication, networking and regional co-operation among young experts in the public administration in view of achieving this objective.

The project has several specific objectives:

- To create a basis for a cross border network among the young public administrators in the SEE region;
- To contribute to the process of exchange of experience and mutual learning on common problems related to the preparation for EU membership;
- To discuss the most topical issues related to the process and prospects of European integration of the SEE region and the preparation for successful EU membership.

### **2. Publications:**

**Preparation for EU Accession Summer Seminar 2005**, Economic Policy Institute, Sofia 2005, ISBN-10: 954-9359-22-0; ISBN-13: 978-954-9359-22-0

### **3. Activities:**

The Annual Summer Seminars are devoting attention and time to both panel presentations and extensive working-group sessions, which are followed by general plenary discussions.

The 2005 Edition focused on:

- South East Europe and the Process of European Integration I – After Signing the EU Treaty and Before Entering Negotiations;

- South East Europe and the Process of European Integration II - Stabilization and Association Agreements;
- Reform in Public Administration;
- The European Integration from the EU Point of View;
- EU Integration of South Eastern Europe: the Business Perspective;
- The Future of Europe.

The Summer Seminar included also:

Roundtable Discussion on:

- The South-East European Enlargement Process and the Future of the European Union.
- Dinner speech on:
- European Integration – the Swiss Way.

#### **List of Contributors:**

**Sasha Bezuhanova**, General Manager, Hewlett-Packard Bulgaria Ltd., Sofia; President, Bulgarian Industrial Business Association (BIBA), Sofia  
**Dr. Martin Brusis**, Senior Researcher, Bertelsmann Group for Policy Research, Center for Applied Policy Research, Ludwig-Maximilians-University, Munich

**Elizabeta Buova**, Head of the Institution Building Unit, Secretariat for European Affairs, Skopje

**Eric Embleton**, Former Head of the Irish Civil Service Centre for Management, Organisation and Development, Dublin

**Goran Gvozdenovic**, Acting Director, General Directorate for EU, Belgrade

**Ivailo Hadjihristov**, Europe – I Directorate, Ministry of Foreign Affairs of the Republic of Bulgaria, Sofia

**Prof. András Inotai**, Director General, Institute for World Economics, Budapest; President, Economic Policy Institute, Sofia

**Lothar Jaschke**, Minister Councillor of the Austrian Embassy, Sofia

**Petar Kandilarov**, Governor, Varna District, Varna

**H.E. Rudolf Knoblauch**, Ambassador of the Swiss Confederation to Bulgaria, Sofia

**Maria Ligor**, Director-General, General Directorate for the European Union, Ministry of Foreign Affairs, Bucharest

**Hans Martens**, Chief Executive, European Policy Centre, Brussels

**Wim van Meurs**, Senior Lecturer in European History and Politics, Radboud University, Nijmegen; Research Associate, Center for Applied Policy Research, Munich

**Irena Mladenova**, Executive Director, Economic Policy Institute, Sofia

**Philippe Rombaut**, Chief Executive Officer, Agropolychim, Devnya; Member, Board of Trustees, Economic Policy Institute, Sofia

**H.E. Manfred Scheich**, Former Ambassador of Austria to the European Commission, Vienna

**Armando Garcia Schmidt**, Project Manager, Bertelsmann Foundation, Guetersloh

**Prof. Dr. Dragoljub Stojanov**, University of Sarajevo, Sarajevo

**Zsolt Szilagyi**, Political Advisor, Cabinet of the Special Coordinator of the Stability Pact for South East Europe, Brussels

**Sasho Tchakalski**, Vice Chairman and Executive Director, Encouragement Bank AD, Sofia

**Fatbardh Zenelaj**, Head of Justice and Home Affairs Unit, Department of European Integration, Ministry of European Integration, Tirana



During 2005 the Economic Policy Institute accomplished a number of economic analyses and research tasks, including:

- Construction Markets in Bulgaria – current status and forecasts
- The preparation for and accession process to the European Union of South Eastern European countries - Albania, Bulgaria and Macedonia
- Foreign direct investments' impact on employment – study on Macedonia, Albania, Bulgaria, Serbia and Montenegro
- Hungarian foreign direct investments in Bulgaria, etc.

## **L**IST OF EPI'S PUBLICATIONS issued in 2005

**Preparation for EU Accession**, Economic Policy Institute, Sofia 2005

ISBN-10: 954-9359-22-0;

ISBN-13: 978-954-9359-22-0

**Challenges to the Financial Sectors in Candidate/Acceding Countries in the Context of the Internal Market Acquis**, Economic Policy Institute, Sofia 2005

ISBN: 954-9359-19-0

**Предизвикателства пред финансовите сектори в бившите и настоящи страни-кандидатки за членство в Европейския съюз в контекста на европейското законодателство на вътрешния пазар**, Институт за икономическа политика, София 2005

ISBN: 954-9359-18-2

**Financial Sectors Development in Central and Eastern European Countries and EU Integration**, Economic Policy Institute, Sofia 2005

ISBN: 954-9359-20-4

Bistra Baharova, **EU Accession: The Determining Factor of Foreign Direct Investment in the Central and Eastern European Candidate Countries**, EPI Working Papers Series, Economic Policy Institute, Sofia 2005

ISBN: 954-9359-16-6

Prof. Dr. Ilian Assenov, **Policy Responses to Foreign Investment in Transition Economies**, EPI Working Papers Series, Economic Policy Institute, Sofia 2005

ISBN: 954-9359-17-4

Newsletter:

**Club on European Affairs – T'Club**, issue 4

До  
**РЪКОВОДСТВОТО НА ФОНДАЦИЯ ИНСТИТУТ ЗА ИКОНОМИЧЕСКА  
ПОЛИТИКА**

гр. СОФИЯ

**ОДИТОРСКИ ДОКЛАД**

от  
**МИХАИЛ ДИНЕВ, регистриран одитор диплом №0003/91 г.**


Извърших одит на приложения финансов отчет на ФОНДАЦИЯ ИНСТИТУТ ЗА ИКОНОМИЧЕСКА ПОЛИТИКА, СОФИЯ, към 31 ДЕКЕМВРИ 2005 година. Отговорността за изготвянето на този финансов отчет се носи от ръководството на предприятието. Моята отговорност се свежда до изразяване на одиторско мнение, основаващо се единствено на извършения одит.

Одитът се проведе в съответствие с професионалните изисквания на Международните одиторски стандарти. Тези стандарти налагат одитът да бъде планиран и проведен така, че да се убеди в достатъчно разумна степен на сигурност доколко финансовият отчет не съдържа съществени неточности, отклонения и несъответствия. Одитът включва проверка на базата на тестове на доказателствата относно сумите и оповестяванията, представени във финансовия отчет. Одитът също така включва оценка на прилаганите счетоводни принципи и на съществените приблизителни оценки, направени от ръководството, както и на цялостното представяне във финансовия отчет. Считаю, че извършения одит предоставя достатъчно разумна база за изразеното одиторско мнение.

В резултат на това, удостоверявам, че финансовият отчет дава вярна и честна представа /представя достоверно, във всички съществени аспекти/ за имущественото и финансово състояние на предприятието към 31 ДЕКЕМВРИ 2005 година, както и резултатите от неговата дейност и паричните му потоци за годината, приключваща на тази дата, в съответствие с Националното счетоводно законодателство.

Дата 21.03 .2006 г.  
гр. София

Регистриран одитор :

  
/ М.Динев /

0003  
Михаил Динев  
Регистриран одитор

**TO  
THE MANAGEMENT OF  
THE ECONOMIC POLICY INSTITUTE  
FOUNDATION  
SOFIA**

**AUDIT REPORT**

**By  
Prof. Dr. Mikhail Dinev, Registered Auditor, Diploma No. 0003/1991**

I have audited the enclosed financial statement of the ECONOMIC POLICY INSTITUTE FOUNDATION, SOFIA as of 31 December 2005. The drawing up of the financial statement is the responsibility of the Management of the Foundation. My responsibility is to express an opinion based solely on my audit.

I have conducted my audit in accordance with the professional requirements of the International Auditing Standards. Those standards require that the audit is planned and performed in such a way to that to obtain reasonable assurance about whether the financial statement is free of material misstatements, discrepancies and inaccuracies. The audit includes checks on the basis of tests of evidence with regard to the amounts and disclosures represented in the financial statement. The audit includes also assessment of the accounting principles applied and the material approximate assessments made by the management, as well as the overall representation in the financial statement. I believe that the audit provides a reasonable basis for my opinion.

As a result, I hereby confirm that the financial statement presents fairly, in all material respects, the property and financial position of the Foundation as of 31 December 2005 and the financial results and the cash flows for the year ending on the said date in conformity with the national accounting legislation.

**Registered auditor:  
Prof. Dr. Mikhail Dinev (signed)  
Registered Auditor  
(seal)**

**Sofia  
21 March 2006**

President: **Prof. Dr. Andras Inotai**, General Director,  
Institute for World Economics of the Hungarian Academy of Sciences

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Project Director: **Plamena Spassova**

Research Fellow: **Desislava Sergieva**

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**Galina Dimitrova**  
Independent Analyst (CFA), Sofia

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Executive Director, Doverie Capital AD, Sofia
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- Angelos Plakopitas**  
Managing Director, Global Finance, Athens

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President, Institute for the Danube Region and Central Europe (IDM), Vienna
- Members: **John Dimitry Panitza**  
President, Free and Democratic Bulgaria Foundation, Paris/Sofia

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- Members: **Kounsul Dr. Werner Waiser**  
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- Chairperson: **Julia M. Watkins, PhD**  
Executive Director, Council on Social Work Education, Alexandria (VA)